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State Securities Regulator Releases “Top 10” Investment Scams, Schemes and Scandals

Concord, N.H. (January 12, 2004) – The New Hampshire Securities Bureau today forecast that investors will be challenged with increasingly complex and confusing investment frauds and identified the Top 10 schemes investors are likely to see in 2004. New to this year’s list are mutual fund practices, senior investment fraud, and variable annuities.

“Investors face a complex maze of scams, schemes and scandals,” said bureau director, Mark Connolly. “Our fight against fraud never stops because each year con artists discover new ways to take advantage of the public. Sadly, many of the age old scams still work to cheat victims of their hard earned savings as well. It pays to remember that if an investment opportunity sounds too good to be true, it usually is.”

“Investors lose billions annually to investment fraud”, Connolly said. He cautioned that investors must remain vigilant in the fight against investment fraud, especially in the current environment of significant budget cuts at the state and federal levels. “All securities regulators, whether local, state, or federal, share the common goal of protecting investors.” Connolly said

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Connolly added that in 2003, the New Hampshire Bureau concentrated on preventing investment fraud in the senior community. “We have been making a number of visits to retirement communities with educational videos and pamphlets, and have just completed 2 months of public service announcements targeted at senior viewers on New Hampshire television stations,” said Connolly.

The New Hampshire Bureau, a member of NASAA (North American Securities Administrators Association) also announced a new interactive Fraud Center on the NASAA web site (www.nasaa.org). The center features details of the top 10 scams, schemes and scandals; tips on how to detect con artists and avoid becoming a victim; an investor “Bill of Rights;” instructions on how to file an investment-related complaint, and contact information for each state securities regulator. Connolly also urged investors to log on to the New Hampshire Bureau’s web site at www.nh.gov/sos/securities/ for additional information.

The following ranking of scams, schemes and scandals for 2004 is based on a survey of state securities regulators conducted by the North American Securities Administrators Association. The list is based on the order of prevalence and seriousness as identified by state securities regulators: 1) Ponzi Schemes, 2) Senior Investment Fraud, 3) Promissory Notes, 4) Unscrupulous Broker/Dealer Representatives, 5) Affinity Fraud, 6) Insurance Agent Securities Fraud, 7) Prime Bank/High Yield Investment Schemes, 8) Internet Fraud, 9) Mutual Fund Practices, 10) Variable Annuities.

Top 10 list of Scams, Schemes and Scandals

(Based on a survey of state securities enforcement officers and regulators)

1. **PONZI SCHEMES.** Named for swindler Charles Ponzi, who in the early 1900s took investors for \$10 million by promising 40 percent returns. These schemes are a perennial favorite among con artists. The premise is simple: promise high returns to investors and use money from previous investors to pay new investors. Inevitably, the scheme collapses and the only people who consistently make money are the promoters who set the Ponzi in motion. Con artists typically attribute government intervention as the reason why new investors didn't get their promised returns.
2. **SENIOR FRAUD.** Volatile stock markets, low interest rates, rising health care costs, and increasing life expectancy, combined to create a perfect storm for investment fraud against senior investors. State securities regulators said older investors are being targeted with increasingly complex investment scams involving unregistered securities, promissory notes, charitable gift annuities, viatical settlements, and Ponzi schemes all promising inflated returns. To learn more, visit NASAA's Senior Investor Resources Center at <http://www.nasaa.org/nasaa/sirc/sirc.asp>.
3. **PROMISSORY NOTES.** A long time member of the Top 10 list, these short term debt instruments often are sold by independent insurance agents and issued by little known or non-existent companies promising high returns – upwards of 15 percent monthly – with little or no risk. When interest rates are low, investors often are lured by the higher, fixed returns that promissory notes offer. These notes, however, can become vehicles for fraud when the issuer of the note has no intention or capability of ever delivering the returns promised by the sales person.
4. **UNSCRUPULOUS BROKERS.** Despite the stock markets rebound in 2003, state securities regulators across the country say they are still receiving a high level of complaints from investors of brokers cutting corners or resorting to outright fraud to fatten their wallets. "I give credit to the increasing numbers of investors who are

giving their brokerage statements a closer look and asking the right questions about unexplained fees, unauthorized trades or other irregularities,” said Connolly.

5. **AFFINITY FRAUD.** Con artists know that it’s only human nature to trust people who are like you. That’s why scammers often use their victim’s religious or ethnic identity to gain their trust and then steal their life savings. No group seems to be immune from fraud.

6. **INSURANCE AGENTS AND OTHER UNLICENSED SECURITIES**

SELLERS. While most securities brokers and insurance agents are honest professionals, some may be lured by high commissions into selling fraudulent or high risk investments, such as promissory notes and ATM and payphone investment contracts.

7. **PRIME BANK SCHEMES.** Another perennial favorite of con artists who promise investors triple digit returns through access to the investment portfolios of the worlds elite banks. The negative publicity attached to these schemes has caused promoters in recent cases to avoid explicitly referring to prime banks. Now it is common to avoid the term altogether and underplay the role of banks by referring to these schemes as “risk free guaranteed high yield instruments” or something equally deceptive.

8. **INTERNET FRAUD.** With the internet becoming part of daily life for increasing numbers of people, it should be no surprise that con artists have made cyberspace a prime hunting ground for victims. Internet fraud has become a booming business. The most recent figures show cyber fraudsters took in \$122 million in 2002, according to the Federal Trade Commission. “The Internet has turned from as information superhighway to a road of ruin for victims of cyber fraud,” Connolly said. “Many of the online scams regulators see today are merely new versions of schemes that have been fleecing offline investors for years.” Regulators also warned investors to ignore e-mail offers from individuals representing themselves

as Nigerian or West African government or business officials in need of help to deposit large sums of money in overseas bank accounts.

9. MUTUAL FUND BUSINESS PRACTICES. Although mutual funds play a tremendous role in the wealth and savings of our nation, ongoing scandals throughout the industry clearly demonstrate that some in the mutual fund industry are putting their own interests ahead of America's 95 million mutual fund shareholders. State Securities Regulators, the SEC, NASD, and mutual fund firms themselves have launched a series of inquiries into mutual fund trading practices. To date, more than a dozen mutual funds are under investigation and several mutual funds and mutual fund employees have either pleaded guilty, been charged or settled with state regulators. "These investigations demonstrate a fundamental unfairness and a betrayal of trust that hurts Main Street investors while creating special opportunities for certain privileged mutual fund shareholders and insiders," Connolly said. "We will continue to actively pursue inquiries into mutual fund improprieties and are committed to aggressively addressing mutual fund complaints raised by investors in our jurisdiction," He added.

10. VARIABLE ANNUITIES. Sales of variable annuities have increased dramatically over the past decade. As sales have risen, so too have complaints from investors. Regulators are concerned that investors aren't being told about high surrender charges and the steep sales commissions when they move investors into variable annuities. Some investors also are misled with claims of guaranteed returns when variable annuity returns are vulnerable to the volatility of the stock market. The benefits of variable annuities –tax deferral, death benefits among others- come with strings attached and additional costs. High commissions often are the driving force for sales of variable annuities. Often pitched to seniors through investment seminars, regulators say these products are unsuitable for many retirees.

New Hampshire citizens with questions or complaints can contact the Bureau of Securities Regulation on the TOLL FREE HOTLINE at 1-800-994-4200 or view the web site at www.nh.gov/sos/securities/.

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